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SUBJECT: NEW FINANCE MINISTER FOCUSED ON PRICES, RURAL
DEVELOPMENT AND ENERGY

Classified By: Ambassador James Moriarty, Reasons 1.4 (b) and (d)

SUMMARY

1. (C) Bangladesh's new Finance Minister, Abul Maal Abdul Muhit, said the new government's top three priorities are managing inflation, developing the energy sector and improving education. In a January 22 meeting with the Ambassador, the Finance Minister said he planned to focus on rural development and increasing agricultural production as means of addressing popular concerns regarding high prices. Minister Muhit was optimistic about Bangladesh's ability to weather what he called the "global depression." While Muhit expressed appreciation for U.S. aid to Bangladesh, he also noted his government's interest in qualifying for Millenium Challenge Account (MCA) funds and for additional debt rescheduling under the U.S. Tropical Forest Conservation Act's debt-for-nature swap. Muhit, who is coming up on his 75th birthday, was dynamic and clearly energized by his election to Parliament and appointment as Finance Minister.

RURAL DEVELOPMENT TO HELP INCREASE INCOMES

2. (SBU) During December's Parliamentary election campaign, the Awami League focused on its record of keeping inflation low during its 1996-2001 government and, according to some, promised to reduce rice prices to 10 taka (about U.S. \$0.15) a kilogram. (Note: Currently rice prices in Bangladesh are 25-30 taka (about U.S. \$0.37 - \$0.44) per kilo. End note.) Among the new Awami League government's first steps was a reduction in diesel fuel and certain fertilizer prices. These campaign promises and early actions have caused jitters among local economists who worry the new government is focused more on populist policies and less on monetary and fiscal responsibility. The new Finance Minister provided some reassurance on this score during a January 22 call with the Ambassador.

3. (C) Minister Muhit told the Ambassador he planned to focus on the election promise of "reducing prices" by increasing agricultural production and promoting rural development. Prices of food and other essential commodities are a key concern for Bangladesh's population, more than half of which subsists on less than U.S. \$2 a day. According to Muhit, there is tremendous potential to increase food grain production in Bangladesh, including the rice that is the

centerpiece of the Bangladeshi diet. Muhit claimed grain production in Bangladesh stagnated during the previous government, led by the rival Bangladesh Nationalist Party (BNP). Muhit predicted the new government's efforts to promote agricultural productivity would also promote rural development and absorb farm workers who might lose their jobs as a result of increasing agricultural efficiency.

ENERGY AND EDUCATION ALSO PRIORITIES

14. (C) Energy development was the government's second priority, Muhit continued. He cautioned his government alone could not solve Bangladesh's power shortfall or fully meet ever-increasing demand; Bangladesh's energy challenges would also require commitment from this government's successor. That said, Muhit said his government would embark on a "three-year crash program" to begin to tackle the country's energy problems. Luckily, he noted, Bangladesh had gas and coal reserves to tap.

15. (C) With regard to gas, Muhit observed that Bangladesh's problem was not one of reserves, but rather of exploration and development. The Caretaker Government and the previous BNP government had done nothing in this area for seven years. The Awami League government would remedy this, according to Muhit. With regard to coal, Muhit noted the government had to address the land issue that would arise from development of Bangladesh's high-quality coal, most of which was best accessed by open-pit mining. Muhit was optimistic that new technologies and the proper approach to people displaced by potential coal mines would permit Bangladesh to benefit from its extensive coal reserves.

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16. (C) Muhit also touched on the new government's third priority, education. He said Bangladesh had made great strides in increasing access to primary education, though still faced problems of quality in primary education. According to Muhit, Bangladesh's secondary school system "is in a dismal state." Access was limited, he said, and education quality was poor, mainly as a result of corrupt practices, through which previous Members of Parliament would pocket money meant for secondary schools in their constituencies. The Finance Minister said the Awami League government's focus in this area would be on teacher training and improving English and science curricula.

OPTIMISM ABOUT WEATHERING GLOBAL RECESSION

17. (C) When the Ambassador asked how Muhit saw the global economic downturn affecting Bangladesh, Muhit observed that the country's ability to diversify its exports could take a hit as newly-developing export markets in Bangladesh might be too fragile to withstand the impact of what he called the "depression." However, the mainstay of Bangladesh's exports, low-cost apparel, appeared to be not only weathering the recession, but making headway. Muhit gleefully reported that immediately prior to his meeting with the Ambassador the heads of Bangladesh's apparel industry had told him they could not keep up with garment orders and were facing a short-term labor shortage of as many as 200,000 workers.

18. (C) This bright spot notwithstanding, Muhit said he hoped to stimulate domestic demand to counter adverse external effects. As a result, the government's monetary policy was likely to be expansionary, though Muhit hastened to add that he would keep close tabs on inflation.

DEBT RESCHEDULING AND THE MILLENNIUM CHALLENGE ACCOUNT

19. (C) The Ambassador noted U.S. development assistance to Bangladesh and thanked Minister Muhit for the cooperation

provided by the Ministry's Economic Relations Division, our key counterpart for implementing U.S. aid programs here. The Finance Minister expressed appreciation for U.S. assistance over the years and noted that like his predecessor, the Finance Adviser of the Caretaker Government, he would pursue debt issues and MCA funds for Bangladesh. The Government of Bangladesh is eager to see another chunk of its debt to the United States rescheduled under the debt-for-nature swap mechanism provided by the U.S. Tropical Forest Conservation Act. The new government is also keen to address its scores on Millenium Challenge Account (MCA) indicators in order to qualify for MCA funds.

COMMENT

¶10. (C) Minister Muhit was in high spirits during the meeting, clearly relishing his election to Parliament and his return to the position of Finance Minister. (He served briefly as Finance Minister during General Ershad's government in the early 1980s.) Muhit said he was excited to take a Parliamentary seat for the first time ever when Bangladesh's Parliament opened on January 25, which he said happened to be his 75th birthday. While some have expressed concern that the Awami League's reputation for populism could result in misguided economic policies, Muhit's comments on agricultural production, rural development, energy and macro-economic policy were reassuring. Thus far, the new government ministers are saying all the right things; we will be watching to see if their actions match their words.

MORIARTY